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Nation's Restaurant News®

THE NEWSWEEKLY OF THE FOODSERVICE INDUSTRY

SECOND CLASS

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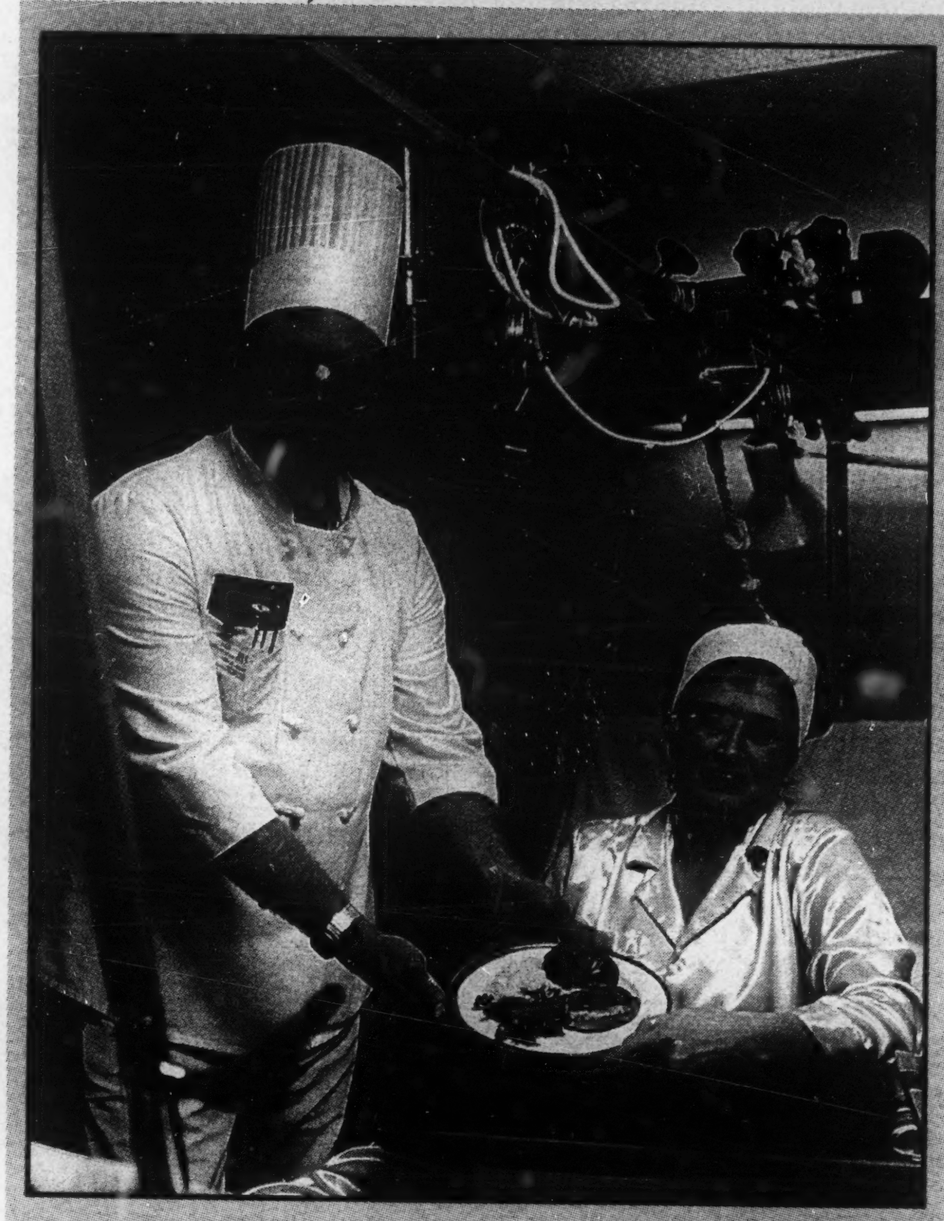

Good bedside manners

Health-care feeders take on commercial restaurants with gourmet menus, paying more attention to making food both healthful *and* tasty. See Segment Special on pages 25-28.

Copeland files Ch. 11 for Popeyes, Church's

Popeyes franchisees rally behind founder at confab

by Peter O. Keegan

SAN ANTONIO, Texas — Just days after Popeyes licensees rallied in support of leader Al Copeland, the New Orleans entrepreneur filed for Chapter 11 bankruptcy protection for his giant 2,000-unit chicken empire after eleventh-hour legal maneuvering failed.

Copeland sounds off
Page 21

Copeland was left with almost no option but to voluntarily file for protection after a judge denied his motion to throw out a petition by chief lenders.

Merrill Lynch & Co. and a group led by the Canadian Imperial Bank of Commerce had petitioned the San Antonio court to order Copeland into involuntary Chapter 11 after a marathon of negotiations broke down. At issue was more than $400 million in debt and interest payments stemming from Copeland's acquisition of Church's two years ago.

The Popeyes and Church's fried-chicken chains will continue to operate as the company reorganizes, and Copeland will remain chairman of Al Copeland Enterprises — at least until any further ruling by the bankruptcy court. The court ordered the company to give vendors priority for payment.

ACE said it is continuing to negotiate with its lenders over "long-term financing arrangements and to reach a consensual reorganization."

In the filing, ACE listed assets of $423.3 million and liabil-

(See COPELAND, page 60)

Popeyes rolls new items

DALLAS — Despite the problems facing Popeyes' franchisor, the chain is continuing to move forward with several new products and a new scaled-down building format.

During the 15th Annual Popeyes Franchisee Conference here, licensees sampled such test items as a new skinless fried chicken, onion rings, chicken tacos and fruit salad.

They also got a chance to inspect a portable double-drive-thru prototype that was set up in the parking lot of the Loews Anatole Hotel, where the four-day meeting was held.

Franchisees have grumbled in the past that Popeyes has not rolled out enough new products. They have also criticized the items that were added, alleging that products like last year's ill-fated seafood gumbo were not suited to a fast-food format.

Puck plans to make waves with opening of Granita

by Richard Martin

MALIBU, Calif. — Foodservice trendsetters Wolfgang Puck and Barbara Lazaroff are bringing a taste of the Mediterranean, a dash of Italian rusticity and a "wave" of curvilinear elegance to the shopping center here where their latest restaurant, Granita, is slated to debut in June.

Catering to the well-heeled residents of this exclusive coastal suburb north of Los Angeles, the 140-seat Granita will serve lunch, dinner and weekend brunch at prices considered modest by Malibu standards.

By positioning the restaurant to more frequently feed the Malibu folk who are among the most avid fans of the couple's West Hollywood flagship, Spago, Puck and Lazaroff would expand the renown enjoyed by their other Los Angeles restaurants, Chinois on Main and Eureka.

Wolfgang Puck

Barbara Lazaroff

"Now, Malibu can be famous not only for its exclusive beach homes but also for its restaurants," remarked Puck, whose backers in the $2 million Granita project include such Malibu residents as superagent Michael Ovitz and comedians Bob Newhart and Don Rickles.

Puck said Granita's Mediterranean-inspired cuisine will reflect the restaurant's location near — if not within sight of — the ocean. "A restaurant has to

(See PUCK, page 60)

Cajun Joe's launches programs to spur sales

by Peter O. Keegan

ALLSTON, Mass. — The Cajun Joe's chicken chain has launched a flock of new programs to boost sales and appease franchisees who say they are being throttled by disappointing sales, high operational costs and insufficient support from the home office.

"Sales volumes are definitely a problem," admitted Cajun Joe's co-president, Joe Barrett. "If you improve sales volumes, then you eliminate a big part of the problem."

Toward that end, the 118-unit chain is teaming up with a major soft-drink supplier to issue a how-to manual for boost-

(See CAJUN, page 61)

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How to lose patrons without really trying
Charles Bernstein/Page 21

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NEWS BRIEFS

Sales rose; food costs moderated, March reports say

WASHINGTON — Sales at the nation's eating and drinking places rose year-over-year by a sluggish 2.1 percent in March, but inflation of wholesale food prices came to a near halt, with prices increasing by just 0.6 percent, according to government reports.

Taken together, the two gauges show that the recession tightened its grip on the economy, according to analysts.

March's slim improvement in restaurant sales — as measured by the Commerce Department's retail sales report — came after a vigorous boost in February, when eating and drinking places posted a 4.8-percent advance in volume on an annual, unadjusted basis. In January sales at restaurants rose 3.3 percent.

Meanwhile, menu prices rose 3.6 percent on a year-to-year basis in March, the third consecutive month that the annualized rate slowed, according to the Labor Department's consumer price index.

Taco Bell expands value menu with 5 new chicken items

IRVINE, Calif. — Taco Bell has expanded its array of bargain-priced menu selections by adding five chicken items priced at less than $1.

For 79 cents patrons can now have a chicken taco served in either a hard or soft tortilla.

Priced at 99 cents are the 3,300-unit chain's new chicken burrito, chicken tostada and chicken MexiMelt, a mixture of chicken meat, salsa and cheeses wrapped in a soft tortilla.

Taco Bell, a subsidiary of Pepsico, sparked a revolution in the fast-food industry when it introduced a separate menu of items priced at less than $1. The move pulled customers away from a number of other fast-feeders, spurring many to resort to wholesale discounting.

In February the chain extended its value menu with the introduction, in three markets, of three snack-sized tacos and burritos selling for 39 cents each.

Marriott sends costly apologies to Dodger fans

LOS ANGELES — Following an uproar of complaints about congested snack-bar lines, snail-paced service, smaller peanut portions and a switch from grilled to steamed Dodger Dogs, Marriott Corp. has mailed apologetic letters and $5 in scrip to the 27,000 holders of Dodger Stadium's season tickets.

Separately, a petition drive by irate fans got the ballpark's new concessionaire to rescind a ban on throwing by peanut vendors, including famed behind-the-back pitcher Roger (The Peanut Man) Owens, whose clientele includes fans who prepay for the entire season.

Marriott, replacing 29-year veteran Arthur Food Service of Los Angeles, debuted at the stadium this season after spending $10 million to refurbish snack bars and install Pizza Hut, Taco Bell, Carl's Jr. and TCBY yogurt franchises. Only generic stands and two Jody Maroni gourmet sausage outlets were ready by opening day, when disgruntled fans learned that hot-dog grills had been permanently replaced by steamers.

Horn & Hardart shuts last Automat, ending an era

NEW YORK — Horn & Hardart Co. ended an era recently when it closed the Automat at the corner of 42nd Street and Third Avenue here — the last of its kind in the country.

The 42nd Street operation, which made its debut in 1958, was one of more than 40 Automats that the company opened in the New York and Philadelphia areas after Joseph Horn and Frank Hardart developed the coin-operated, waiterless concept in 1902. At their peak in the 1940s and 1950s, the chrome-and-glass Automats served nearly 1 million meals a day. The wall of one of the original Automats has been preserved at the Smithsonian Institute in Washington, D.C.

Horn & Hardart has been selling off its formerly diverse restaurant empire to concentrate on its mail-order business. In March H & H divested its last major foodservice element — International King's Table, an 83-unit, buffet-style restaurant chain operating in five Western states.

Ground Round's parent raises possibility of uncoupling chain

WOODBRIDGE, N.J. — After posting a $13.2 million loss for 1990, the parent of Ground Round said it is studying the feasibility of spinning off the dinner-house chain as a separate entity.

GR Foods said that it is also meeting with financial advisers to discuss other, unspecified options.

The company, formerly known as International Proteins, bought Ground Round in 1989 from Hanson Industries. The concern is also a supplier of packaged foods and agricultural supplies.

GR's 1990 losses compare with a 1989 deficit of $878,000. Revenues rose 180 percent last year, to $288.5 million.

New Orleans' woes claim LeRuth's as a casualty

NEW ORLEANS — LeRuth's, one of the area's most famous restaurants, has closed its doors after 26 years.

New Orleans' weak economy and sagging convention business were cited as key factors in the closing.

Located in Gretna, La., across the Mississippi from New Orleans, the restaurant was founded by Warren Leruth, who sold it to his sons, Larry and Lee, in 1982. Lee Leruth died in 1989 from an apparently self-inflicted gunshot wound. His widow, Torey, has operated the restaurant with her brother-in-law since then.

In addition to other awards, LeRuth's was given a five-star rating by the Mobil Guide in 1977.

Jack in the Box rolls 3-year plan to cut waste 15%

SAN DIEGO — Jack in the Box, Foodmaker's 1,040-unit, fast-food chain, has rolled out programs to conserve natural resources and cut solid waste by at least 15 percent by 1994.

Darren Blass, the chain's environmental affairs manager, said lighter-weight carryout bags would annually save 500,000 pounds of paper, equivalent to 4,250 trees. Another 2,000 pounds would be conserved through modifications to drink-cup cases, he added.

By ordering alterations to ingredient packaging, Blass said, this year the chain will prevent 600,000 pounds of material — equal to 1,000 cubic yards — from entering the waste stream. He said a total of 1 million pounds have been eliminated since cutbacks began in 1989 and added that four plastic foam containers still used by the chain for food packaging will be phased out.

"It only makes sense, on some of these things, that [conservation] is going to drop prices [of supplies], but that's really a secondary consideration," said Foodmaker chairman Jack Goodall, stressing the company's commitment to environmental protection.

Schultz joins Gladstone's firm as prexy, COO

LOS ANGELES — Robert W. Schultz, a veteran senior executive at major investment, finance and acquisitions firms, has been named president and chief operations officer of California Beach Restaurants here, the parent company of the high-grossing landmarks Gladstone's 4 Fish and R.J.'s the Rib Joint.

He replaces Richard S. Stevens, who resigned from the company in February. Schultz was president of Cushman Equities Corp. for the past six years and is a general partner of two firms that together own 11.8 percent of California Beach's publicly traded shares.

Schultz was formerly a first vice president in the corporate finance department of Bateman Eichler, Hill Richards Inc. Before that he was West Coast manager of Peat Marwick & Co.'s acquisition advisory services.

Robert J. Morris, the founder of Gladstone's and R.J.'s, remains California Beach's chairman and chief executive.

FINANCIAL NEWS

Morrison profits jump; growth seen for 4th Q

by Jack Hayes

MOBILE, Ala. — After reversing an 18-month profit slide by slashing administrative and operating costs, Morrison Inc. is expected to keep its turnaround alive by converting several unprofitable buffet units and reaping a payoff from its newest casual restaurants.

Buoyed by Morrison's latest earnings report, showing a gain in quarterly net income for the first time since November 1989, most analysts who follow the 70-year-old operation are cautiously upgrading their investment ratings and revising predictions for the company's final quarter, which ends in June.

Morrison logged third-quarter net income of $7.4 million for the three months ended March 2 — up 33 percent from the $4.9 million earned a year ago. However, last year's net income was reduced by an investment loss.

Meanwhile Morrison's third-quarter revenue jumped 8 percent, to $247 million, from $228 million.

Nine-month net income — which at $17.9 million was even with the year-ago period — was earned on revenues of $720 million, an 8-percent jump over last year's $665 million.

"I think the company deserves another look," said analyst Craig Weichmann of Memphis, Tenn.-based Morgan Keegan & Co., elaborating on a recent bulletin.

In the report Weichman predicted fourth-quarter profit gains for Morrison's 169-unit family dining (cafeteria) division and its 176-unit specialty restaurant division, which has Ruby Tuesday, L & N Seafood Grill and Silver Spoon Cafe.

The company also operates Morrison's Custom Management, a major contract feeder. The division is attempting to bolster its profits by pruning unprofitable accounts from its customer roster.

> Morrison is plotting more aggressive penetration of the hot casual-dining niche beyond the current year.

Weichmann sees the specialty restaurant group chalking up better profits as a result of traffic growth spurred by competitive menu prices.

The family dining division's earnings will also improve, he said, because promotional spending is being slashed.

"Margins were hurt by heavy discounting which is unlikely to be repeated," added Steven Rockwell of Baltimore-based Alex. Brown & Sons Inc., in a separate bulletin. Thus cafeterias could post higher year-to-year operating income even on flat or slightly lower sales, Rockwell holds.

Meanwhile, Morrison is plotting more aggressive penetration of the hot casual dining niche beyond the current year. Based on cash flow, Morrison could open 31 new casual units in fiscal 1992 compared with the 34 restaurants opening this fiscal year, according to senior vice president Richard McGeoch.

And the company may get an assist from consumers if the nation's economy also begins a turnaround this month, as predicted by top economists — including Donald Rataczak of Georgia State University, who is a member of Morrison board of directors.

"The [specialty restaurant group's] margins got crippled this year owing to the flurry of openings," added Weichmann, claiming that Morrison accelerated its already brisk 20-percent expansion rate to a breakneck 30 percent, opening 22 stores alone in the first half of fiscal 1991.

"New restaurants net only 3 percent the first year," Weichmann continued, adding that as opening expenses get amortized, margins gradually improve to 12 percent and 14 percent.

But there is a question abouthow long Morrison can hold down menu prices in the specialty restaurant division. The deliberate strategy is to position its three casual concepts strongly around value.

Yet in addition to holding prices at Ruby Tuesday and Silver Spoon Cafe, Morrison opted to scale back its check average at L & N Seafood Grill by adding lower-priced menu items.

"They wisely took the reverse tack of many of their competitors," Weichmann argued. "They lowered the check average by $2, and they're reaching the broader market."

However, in the family dining division Morrison passed along a 1-percent hike in menu prices on March 1 to offset the April 1 minimum-wage increase.

But analysts aren't won-

*(See **MORRISON**, page 53)*

FOOD PRICE OUTLOOK

Egg, asparagus prices lower

by Patt Patterson

Egg prices are running as much as 20 percent lower than last year's at this time, mostly because of the earlier Easter this year. Expect them to firm up a bit over the next few weeks. Producers are keeping pretty tight reins on production, with flock size being held close to demand.

Asparagus from California is in good supply, and prices are trending lower. The Christmas freeze did not affect asparagus plants, which were in their dormant stage. Both Sacramento Valley and Monterey County are reporting good production and quality.

Green coffee beans, after a runup in mid-March, seem to have settled down. Reports that Brazil was going to agree to world quotas set by the International Coffee Organization caused the flurry in pricing, but the short- to medium-term outlook is for supplies to remain at more than adequate levels. High-quality grades remain at a premium, as they have for several years.

Demand for **cod** continues to outpace supply, with stocks at their lowest in recent history, and the prices at their highest. The strong demand from foodservice has pushed up prices of other fish used as alternatives. **Pollock** and **haddock** are running far ahead of last year's prices. With catches down and European and Asian demand strong, no relief is seen in the immediate future.

Export demand for feed grains is lagging, and this may mean lower prices for them here. If so, prices of feeder cattle could moderate by summer. But the underlying cause of high **beef** prices is the failure of ranchers to increase herds. Feeder cattle prices are at record highs, although many feedlots are said to be crowded with animals more than ready for market.

Broiler prices are well down from last year's at this time. Increased production and more stable demand are said to be the reasons. Producers continue to project small increases for the months ahead, which should hold prices stable at these lower levels.

FACT FILE

Who's drinking what?

Those who drink:	Total	Men	Women
	(In percentages)		
Fruit juices, drinks	93	94	93
Carbonated beverages	91	90	92
Alcoholic beverages	66	77	56
Caffeinated coffee	65	68	61
Decaffeinated coffee	47	47	48
Bottled water	55	56	53

Source: Research Advantage Inc., Hawthorne, NY

FINANCIAL DIGEST

Hotel venture erodes Family's earnings

NEPTUNE BEACH, Fla. — Family Steakhouses of Florida's gamble of diversifying into the hotel business has backfired with devastating results on its earnings.

Operating and investment costs associated with its struggling Rustic Inn hotels, a joint-venture arrangement, squeezed earnings for the fourth quarter and blew profits away for the year. Family's core business is a 26-unit group of Ryan's Family Steak Houses.

For the fourth quarter ended Jan. 2, the company lost $880,000 on a 2-percent drop in sales, to $11.1 million. For the year earnings fell 91 percent, down to $150,000, even though sales grew by 5 percent, to $48.1 million.

The drain on earnings has forced Family Steakhouses to bail out of the Rustic Inn with a write-off of its investment, a $454,500 after-tax charge for the quarter and a $556,500 after-tax hit against earnings for the year.

A year ago the company made $92,300 for the year and chalked up quarterly earnings of $1.7 million.

In addition to the expenses related to the Rustic Inn, company executives said the Middle East military deployment depressed restaurant volume.

"Our investments in the Rustic Inn joint venture has not fulfilled its potential," said James W. Osborn, president and chief executive officer. "The continuing operating losses and cash requirements have created a drain on both resources and our management's attention.

"We entered into the joint venture on the basis that our partner would manage the expansion of the Rustic Inn throughout the state without requiring a diversion for the Family's management team."

But Osborn said a turnaround is currently under way.

Bass PLC to hold first U.S. public offering

LONDON — For the first time in its 200-year history, Bass PLC, parent company of Holiday Inn Worldwide, will attempt to raise capital through a public stock offering in the United States.

The company plans to raise $975 million, about 71.3 million shares, to help pay for the hotel's restructuring and pub and brewing operations in England.

Until now, Bass had relied on debt and internal cash flow to pay for company expansion.

Bass bought Holiday Inn last year and moved the corporate headquarters to Atlanta. It has restructured Holiday Inn in a move to reduce operating costs.

Oil processor buys 24 Stop'N'Go units

HOUSTON — Diamond Shamrock, a diversified oil and chemical processor, has bought 24 Stop'N'Go retail gasoline and convenience stores from National Convenience Stores.

Terms of the transaction were not disclosed, but NCS said the proceeds would be used to reduce bank debt and improve the company's liability-to-asset ratio.

"This sale represents another step toward our strategic objective of focusing on our asset base by building major positions in certain markets and withdrawing from other markets where we are less important," said Peter Van Horn, president and chief executive of NCS.

Of the top three convenience store chain operators, NCS is the only one that has avoided bankruptcy.

Southland Corp., operators of the segment's largest chain, 7-Eleven, emerged out of Chapter 11 two months ago, while Circle K, the second-largest segment operator, has been in Chapter 11 since last Spring.

PoFolks buys 6 Houston units

NASHVILLE, Tenn. — PoFolks Inc. has bought six franchised units in the Houston market from F.G.F. Partners, ending the licensee's relationship with the chain.

Noting that Houston is one of the chain's strongest markets, PoFolks indicated that the acquisition could add $6.5 million to its top line.

"This acquisition places PoFolks in a strategic position to complement its growth in the Western U.S.," said John Scott, president.

With the new units, PoFolks operates 42 of the system's 133 outlets. It franchises the rest.